



LUKOIL

ECOLOGY

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OUR ENVIRONMENTAL STANCE

Having vast opportunities also means having a lot of responsibilities; being a large, powerful and modern company, LUKOIL has always placed a special emphasis on environmental protection doing its best to preserve our land, rivers and air; we are answerable both to the nature and the society.

Over the years of work we have learnt how to handle environmental challenges which all oil companies face in the course of operations, we have highly qualified ecologists, and we have also been developing and implementing environmental programs, in other words, 'we walk the talk'.

LUKOIL is operating in Russia, Eastern Europe, US, Asia, Africa, in the Caspian Sea Region and in the Middle East; every region has its own regulations, including environmental ones, and if these are not stringent enough we stick to our corporate rules so as to avoid any environmental damage.

In this area of activities we have our so-called guiding star, i.e. the key document titled "Health, Safety and Environment Policies". These regulations help LUKOIL create safe working environment, protect people's health, do everything possible to preserve the nature from the negative influence of civilization. It really does matter to us.

Once again: we stick to what we say, i.e. we abide by our documents, procedures and rules: the environmental management system has proven its efficiency, and over the last five years LUKOIL has been demonstrating that its environmental impact is much lower than the average across the sector.

Our enterprises have been implementing their environmental safety programs which lead to energy savings and help them reduce losses; it all results in cleaner air, spared resources and millions and billions of rubles worth of savings.



WHERE AND HOW WE WORK

WE ARE CURRENTLY IMPLEMENTING A DETAILED ENVIRONMENTAL SAFETY PROGRAM, WITH ITS BUDGET TOTALING ALMOST 35 BLN RUR. SOME TIME AGO OUR MAJOR CHALLENGE WAS TO ELIMINATE ANTHROPOGENIC IMPACT ON THE ENVIRONMENT, WHEREAS TODAY WE ARE DOING OUR BEST TO PREVENT POLLUTION AT ITS EARLIEST STAGES.

There is more to it: LUKOIL's production activities are environmentally friendly, which helps us save resources and eliminate waste generation. We are the industry's top performer in terms of some environmental indicators; we regard this issue to be of utmost importance to us, for it does make a difference.

Here is an example of how LUKOIL was developing some of its Western Siberian fields: back in the Soviet times production in the north lead to dramatic environmental problems. These included pipeline accidents, soil polluted with oil, depleted wells and gas flares burning over taiga all year round. Plus the severe climate and nature of the north for which it is always hard to restore during the short summer.

From 1997 to 2005 LUKOIL reduced the area of disrupted land from 1.5 ths to 175 ha; we liquidated sludge pits, repaired pipelines and began efficiently using associated gas and spent 20 billion RUR on all this restoration work. As a result, our Western Siberian enterprises became the industry's top-performers.

We also have to mention land reclamation in the **Komi Republic**: in 1994 there was an accident involving the Vozei oil pipeline; spilt oil covered 745 hectares of tundra. Can you imagine kilometers of destroyed soil, suspended wells and worn-out equipment of drilling rigs...

It was on a voluntary basis that LUKOIL started implementing land reclamation measures, adopted a rehabilitation program and upgraded multiple oil production and transfer facilities. We launched production of petroleum products, repaired old gas stations and built new modern ones; the amount of LUKOIL's

investments came to over 4.6 billion RUR and took several years to accomplish. The result is that a vast area in Usinsk District of the Komi Republic ceased to be an 'environmental disaster' zone. The government did notice and highly rate our effort. Today, Timan-Pechora Province is a very important oil and gas production region of the Company's presence.

Our primary goal in the **Caspian Sea** region is a maximum possible reduction of emergency discharges into water, therefore we developed the 'zero discharge' principle (drilling waste is gathered and transferred onshore for purification and disposal). Monitoring shows that over five years of its offshore operations LUKOIL, which spent 3 billion RUR on accident and spill prevention has not once exceeded the maximum permissible pollution level.

Yet another quite unique project included drilling operations at **Kravtsovskoye field in the Baltic Sea (D-6)**. These were also based on the 'zero discharge' principle. This case really stands out for the responsibility was enormous due to the fact that D-6 is located in the proximity to Kurshskaya Foreland natural conservation area, so we had to ensure that all industrial and environmental hazards were minimized and the area was properly monitored. A rescue boat was on duty in the area, and all operations performed by oil industry workers were under satellite supervision. As a result in 2004 our company was awarded a national environmental prize for its integrated approach to handling such very important issues.

Here is one more example i.e. construction and operation of the **Vysotsk** terminal in Leningrad Oblast: The work began in 2002 and it took us two years to construct a unique complex fully compliant with the European standards. The terminal is only used to service double hull tankers with up-to-date navigation equipment, both petroleum products reservoirs and loading racks have double walls so as to avoid any possible leaks into water and soil... Now Vysotsk is one of the most environmentally safe ports in the world.





OUR PRODUCTION ACTIVITIES AND ENVIRONMENTAL AWARENESS

WE HAVE MADE TITANIC EFFORTS UPGRADING AND RECONSTRUCTING OUR REFINERIES, MANAGED TO REDUCE OIL DISCHARGES AND HAVE FULLY ELIMINATED DISCHARGES OF POLLUTED WASTEWATER. MOREOVER, OUR PLANTS WERE AMONG THE FIRST IN RUSSIA TO STOP PRODUCING ETHYLATED GASOLINES. STARTING IN 2005, HALF OF ALL DIESEL FUEL PRODUCED BY LUKOIL IS IN CONFORMITY WITH EURO-4 AND WE ALSO PRODUCE EKTO WHICH IS NEW UP-TO-DATE ENVIRONMENTALLY FRIENDLY FUEL, AS WELL AS EURO-3 GASOLINE.

As to our petrochemical products, one of the major challenges which we faced during refinery upgrading was to minimize their environmental impact: we have come up with an environmentally safe prussic acid disposal technique, moreover we've started to produce sodium cyanide which a product that the mining industry cannot do without and almost all of which had been imported up to that time.

All of our petrochemical plants operate in compliance with the international standards, they all have been subject to certification to conform to the best global practices, and the Russian government issued recommendations on expanding their practices to other enterprises.

It goes without saying that it is absolutely important that our multiple gas stations are also environmentally safe: gas stations and petroleum depots have treatment facilities and oily sewers in place. In fact about our capability to prevent and respond to emergencies: every year the company spends over 5 billion RUR on training and emergency response measures, we have established cooperative ties with the Ministry for Emergencies and all enterprises have emergency spill plans.



MATTERS OF PARAMOUNT IMPORTANCE FOR US

WE ARE RUSSIA'S #1 OIL COMPANY IN TERMS OF MINIMIZING THE ENVIRONMENTAL IMPACT. OUR EXPENSES ARE ONE AND A HALF TIMES LOWER THAN THOSE AVERAGE IN RUSSIA. LAST YEAR LUKOIL SPENT ABOUT 60 MILLION USD ON ENVIRONMENTAL PROTECTION. OUR EFFORTS, RESPONSIBLE ATTITUDE AND ENVIRONMENTAL PROTECTION ASPIRATIONS RESULTED IN OUR AWARDS IN VARIOUS CONTESTS AND FIRST PLACES IN ENVIRONMENTAL RATINGS.

Moreover, being responsible also means being transparent: our documents have been published in 'white' pages intended for companies that have voluntarily disclosed their social and environmental records. Our ecologists have received governmental, department and corporate awards and some of them have been awarded the 'Honored Ecologist of Russia' titles.

Just like the entire global community, we are deeply concerned about the man-caused environmental impact and climate change. When Russia joined the Kyoto Protocol, LUKOIL undertook to reduce its green gas emissions and approved its corporate strategy for 2007-2008. Every two years we publish a report on what we have accomplished in Russia, which also includes environmental activities.

Our strategy is in line with the government's strategy; we keep up with the times and try to efficiently use our natural resources. LUKOIL's strategic goal is to become a leader in the global oil industry; and LUKOIL's mission is to help the mankind benefit from natural resources. Our nature, land, its resources and their environmental friendliness are very important to us and we shall apply our best efforts to preserve them.

